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Special Reports: applying agreed-upon procedures to specified elements, accounts, or items of a financial statement; Statement on auditing standards, 035

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Special Reports—Applying Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement

(Supersedes Statement on Auditing Standards No. 14, paragraphs 15-17)¹

1. An accountant may accept an engagement in which the scope is limited to applying to one or more specified elements, accounts, or items of a financial statement agreed-upon procedures² that are

¹This Statement also amends SAS No. 26, *Association With Financial Statements*, by deleting from the last sentence of paragraph 20 the words "as specified in SAS No. 14, the financial statements of the entity may not accompany this special report." Also, this Statement withdraws the auditing interpretation "Understanding of Agreed-Upon Procedures," February 1980 (AU section 9621.32-.33), by incorporating the guidance of the interpretation into paragraph 2 of this Statement. The auditing interpretation entitled "Reports on Engagements Solely to Meet State Regulatory Examination Requirements," October 1979 (AU section 9621.15-.16) is also withdrawn, and a footnote is added to the end of SAS No. 14, paragraph 5 to state, "This form of reporting is appropriate, even though by law or regulation the accountant's report may be made a matter of public record."

²Mere reading of a specific element, account, or item does not constitute a procedure sufficient to permit an accountant to report on the results of applying agreed-upon procedures to one or more specified elements, accounts, or items of a financial statement.

not sufficient to enable him to express an opinion on the specified elements, accounts, or items, provided (a) the parties involved have a clear understanding of the procedures to be performed and (b) distribution of the report is to be restricted to named parties involved.⁸

2. To satisfy the requirement that the parties involved have a clear understanding of the procedures to be performed, ordinarily, the accountant should meet with the named parties involved to discuss the procedures to be followed. This discussion may include describing to the named parties procedures frequently followed in similar types of engagements. Sometimes the accountant may not be able to discuss the procedures directly with all the parties who will receive the report. In such circumstances, the accountant may satisfy the requirement that the parties involved have a clear understanding by applying any one of the following or similar procedures:

- a. Discussing the procedures to be applied with legal counsel or other appropriate representatives of the parties involved, such as a trustee, a receiver, or a creditors' committee.
- b. Reviewing relevant correspondence from the parties.
- c. Comparing the procedures to be applied to written requirements of a supervisory agency, such as a bank regulatory agency that receives a report in connection with a bank directors' examination.
- d. Distributing a draft of the report or a copy of the client's engagement letter to the parties involved with a request for their comments before the report is issued.

3. The second and third standards of field work and the standards of reporting do not apply to an engagement that is limited to applying agreed-upon procedures to one or more specified elements, accounts, or items of a financial statement; however, the general standards and the first standard of field work are applicable.

4. The accountant's report on the results of applying agreed-upon procedures should (a) indicate the specified elements, accounts, or items to which the agreed-upon procedures were applied, (b) indicate the intended distribution of the report, (c) enumerate the procedures performed, (d) state the accountant's findings, (e) disclaim

⁸The form of reporting described in paragraph 4 is appropriate, even though by law or regulation the accountant's report may be made a matter of public record.

an opinion with respect to the specified elements, accounts, or items, and (f) state that the report relates only to the elements, accounts, or items specified, and does not extend to the entity's financial statements taken as a whole.⁴

5. If the accountant has no adjustments to propose to the specified elements, accounts, or items, he may include a comment to that effect in his report. For example, the following language might be included: "In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the (specified elements, accounts, or items) should be adjusted." Also, the accountant may wish to indicate that had he performed additional procedures with respect to the specified elements, accounts, or items or had he made an examination of the financial statements in accordance with generally accepted auditing standards, (other) matters might have come to his attention that would have been reported.

6. The following are illustrations of the types of reports that might be issued when an engagement is limited to applying to one or more specified elements, accounts, or items of a financial statement agreed-upon procedures that are not sufficient to enable the accountant to express an opinion on the elements, accounts, or items.

Report in Connection With a Proposed Acquisition

Board of Directors
X Company

We have applied certain agreed-upon procedures, as discussed below, to accounting records of Y Company, Inc., as of December 31, 19XX, solely to assist you in connection with the proposed acquisition of Y Company, Inc. It is understood that this report is solely for your information and is not to be referred to or distributed for any purpose to anyone who is not a member of management of X Company. Our procedures and findings are as follows:

a. We reconciled cash on deposit with the following banks to the

⁴When the accountant consents to the inclusion of his report on the results of applying agreed-upon procedures in a document or written communication containing the entity's financial statements, he should look to SAS No. 26, *Association With Financial Statements*, or to Statement on Standards for Accounting and Review Services No. 1, *Compilation and Review of Financial Statements*, as appropriate, for guidance on his responsibility pertaining to the financial statements.

balances in the respective general ledger accounts and obtained confirmation of the related balances from the banks.

<u>Bank</u>	<u>Balance Per General Ledger</u>
ABC National Bank	\$ 5,000
DEF State Bank	13,776
XYZ Trust Company— regular account	86,912
XYZ Trust Company— payroll account	5,000

- b. We obtained an aged trial balance of the accounts receivable subsidiary records, traced the age and amounts of approximately 10 percent of the accounts to the accounts receivable ledger, and added the trial balance and compared the total with the balance in the general ledger control account. We mailed requests for positive confirmation of balances to 150 customers. The differences disclosed in confirmation replies were minor in amount and nature, and we reconciled them to our satisfaction. The results are summarized as follows:

<u>Accounts Receivable Aging and Confirmation</u>			
	<u>Account Balance</u>	<u>Confirmation Results</u>	
		<u>Requested</u>	<u>Received</u>
Current	\$156,000	\$ 76,000	\$ 65,000
Past due:			
Less than one month	60,000	30,000	19,000
One to three months	36,000	18,000	10,000
Over three months	48,000	48,000	8,000
	<u>\$300,000</u>	<u>\$172,000</u>	<u>\$102,000</u>

Because the above procedures do not constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on any of the accounts or items referred to above. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the specified accounts or items should be adjusted. Had we performed additional procedures or had we made an examination of the financial statements in accordance with generally accepted auditing standards, matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and does not extend to any financial statements of Y Company, Inc., taken as a whole.

Report in Connection With Claims of Creditors

Trustee
XYZ Company

At your request, we have performed the procedures enumerated below with respect to the claims of creditors of XYZ Company as of May 31, 19XX, set forth in the accompanying schedules. Our review was made solely to assist you in evaluating the reasonableness of those claims, and our report is not to be used for any other purpose. The procedures we performed are summarized as follows:

- a. We compared the total of the trial balance of accounts payable at May 31, 19XX, prepared by the company, to the balance in the company's related general ledger account.
- b. We compared the claims received from creditors to the trial balance of accounts payable.
- c. We examined documentation submitted by the creditors in support of their claims and compared it to documentation in the company's files, including invoices, receiving records, and other evidence of receipt of goods or services.

Our findings are presented in the accompanying schedules. Schedule A lists claims that are in agreement with the company's records. Schedule B lists claims that are not in agreement with the company's records and sets forth the differences in amounts.

Because the above procedures do not constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on the accounts payable balance as of May 31, 19XX. In connection with the procedures referred to above, except as set forth in Schedule B, no matters came to our attention that caused us to believe that the accounts payable balance might require adjustment. Had we performed additional procedures or had we made an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and does not extend to any financial statements of XYZ Company, taken as a whole.

The Statement entitled Special Reports — Applying Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement was adopted unanimously by the fifteen members of the board.

Auditing Standards Board (1979-1980)

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Note: *Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the Institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute's Code of Professional Ethics requires adherence to the applicable generally accepted auditing standards promulgated by the Institute. It recognizes Statements on Auditing Standards as interpretations of generally accepted auditing standards and requires that members be prepared to justify departures from such Statements.*

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